Centre for Management Buyout Research: UK private equity buyout activity down on last year but reinvigorated IPO market offers hope of an exit revival

North American acquirers view UK assets as a safe haven with investors keen to gain a foothold in Europe while avoiding Eurozone volatility

- 2013 half year buyout value and volume is down on same period last year
- Deal fundamentals in place but volume of transactions not getting done
- Exits total £8bn boosted by the revival of PE-backed IPOs
- Refinancing on the up as debt becomes available

London, 1 July 2013: The UK’s Private Equity (PE) buyout market has seen a drop in both volume and value of deals at the half way point of 2013, but exit values have increased significantly boosted by the revival of PE-backed IPOs as an exit route for the industry.

There were 81 UK buyouts over the first six months of this year with a total value of £6.0bn, compared to 117 and £8.6bn over the same period in 2012. Encouragingly the value of exits totalled £8bn at the half way point of this year, an increase from £5.8bn in 2012, according to the latest data published by the Centre for Management Buyout Research (CMBOR) at Imperial College sponsored by Ernst & Young and Equistone Partners Europe.

Sachin Date, Private Equity leader for Europe, Middle East, India and Africa (EMEIA) at Ernst & Young comments, “These low levels of buyout activity are not reflective of what we are seeing in the market place in terms of the pipeline and deals in progress.

“The fundamentals for a healthy deal market are in place. Confidence is increasing, there is an appetite for deals and the debt market is buoyant, but despite these positive signs the market is still challenging and deals are taking longer to complete.”

Christian Marriott, Investor Relations Partner at Equistone Partners Europe Limited, says, “It has been encouraging to see private equity backed companies accessing the IPO market in the last six months, providing a welcome boost to exit values. Following the examples of Countrywide and Esure, we are now seeing a strong pipeline of firms looking to exit in this way. But there is cause for caution in the outlook for the rest of the year, as equity market volatility may well make timing a key success factor.”

North American investors acquire taste for UK assets
An emerging trend over the last six months has been the number and value of buyouts involving acquirers from North America (US and Canada), with 12 of the 17 £100m or more deals originating from the region. These deals alone have equated to £4bn.

Date says, “The relative safety that Sterling offers in light of Eurozone volatility has made UK PE assets extremely attractive to North American investors. The significant number of acquirers from this region highlights the attractiveness of the UK as a footprint into Europe without exposing investors to the current risks associated with the Eurozone.”

**IPO window opens as an exit route**

The CMBOR research reveals that IPOs are back on the menu, with four PE-backed IPOs during the first half of this year – three during Q1 and a single flotation during Q2 – raising a total of £3.9bn. The largest exit in 2013 is Partnership Assurance which floated in June with a market capitalisation of over £1.5bn.

Date says, “It has been encouraging to see capital markets open up and these recent flotations have traded successfully which has helped build confidence amongst investors that PE-backed IPOs are again an attractive proposition.

“We should see more IPO activity over the coming months with good PE assets coming to market, unless of course macro economic conditions change dramatically and make investors more cautious.”

**Refinancing picks up pace**

PE houses have taken advantage of the readily available debt and have undertaken a record number of refinancing transactions for the first six months of any year since records began. There have been 25 refinancings so far in 2013 reaching £7.6bn, compared to 20 and £3.4bn over the same period last year.

Date comments, “We have seen a significant increase in the number of refinancing transactions. The portable provision in these debt packages will make it easier to exit these investments in the near term.

“Another positive sign for European PE companies, who typically rely more on bank financing, is that the volatility seen in the bond market is not coming through in the banking markets where conditions remain stable.”

**Mid market holds up as lower market sees the greatest decline**
Mid market deals in the £100 - £500m space have held up relatively well with 15 deals over £100m completing this year. The greatest decline in the UK has been the number and value of deals in the £50 - £100m deal range. Over the same period last year there were 13 deals equating to £930m, compared to six and £422m over the first half of this year.

Date says, “When we look at the types of businesses that operate in this value bracket we can see why there are less deals. Typically, these businesses are less diversified, operating in a single market with single products and services offerings. Investors today are on the hunt for multi-sector, multi-product and multi jurisdiction assets which are able to spread their exposure to fluctuating macro economic conditions.”

**Outlook – deals will be done**
Looking forward to the remainder of this year, Date says, “Although values and volumes of deals are down, all the indications point to a healthy pipeline, and while we might not reach the record levels previously achieved there should be a positive number of deals completed. There are plenty of attractive assets out there and we will continue to see some prime assets come to market over the coming months.”

**Other findings**

- **Secondary buyouts remain largest source by value** – with 19 at £2.7bn in 2013
- **Debt levels rise for large deals** – average debt for buyouts over £50m is 43% this year after 39% in 2012
- **PTP activity stalls** – so far this year there has only been one PTP deal at £31m compared to nine last year at £1.7bn
- **The North West is most active region by deal volume** – the NW has 16 deals at £1.3bn followed by London with 11 deals (£1.4bn)

**Ends**

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Notes to editors

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Methodology
Multiple is a quarterly publication raise funds for new investments summarizing trends in buyouts* across Europe. Ernst & Young and Equistone Partners Europe are proud to sponsor CMBOR, the Centre for Management Buyout Research whose data is analyzed in Multiple. Countries covered: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Czech Republic, Hungary, Poland, Romania and Turkey and the UK.

*Buyouts: CMBOR defines buyouts as over 50% of shares changing ownership with management or private equity, or both having a controlling stake upon deal completion. Equity funding must primarily be from private equity funds and the bought-out company must have its own financing structure, e.g., MBO/MBI.

About CMBOR
The Centre for Management Buyout Research (CMBOR) was founded in 1986 and moved to Imperial College Business School in 2011. CMBOR is world-renowned as the long-standing leader in providing robust analysis of the buyout market. CMBOR data covers all buyout activity and therefore includes transactions funded on a cash or debt-only basis as well as traditional private equity-funded buyouts. CMBOR is independently sponsored by Equistone Partners Europe and Ernst & Young.

About Equistone Partners Europe
Equistone Partners Europe Limited is an independent investment firm owned and managed by the former executives of Barclays Private Equity.

In January 2013, Equistone successfully completed the final closing of Equistone Partners Europe Fund IV with total capital commitments of €1.5bn.

The Company is one of Europe’s leading investors in mid-market buyouts with a successful track record spanning over 30 years, with more than 350 transactions completed in this period.

Equistone has a strong focus on change of ownership deals and aims to invest between €25m and €125m of equity in businesses with enterprise values of between €50m and €300m.

The Company has a team of 33 investment professionals operating across France, Germany, Switzerland and the UK, investing as a strategic partner alongside management teams.

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